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ARM Research | Weekly Call

The Nigerian equity market ended negative last week, losing 2.74% over the week with YTD performance back to negative (-1.0%). The negative run was driven by losses in bellwether stocks: SEPLAT (-9.26%), DANGCEM (-5.86%), GUARANTY (-1.93%) and ZENITHBANK (-1.89%). On a sectorial basis, the Personal care, Cement, Oil & gas, and Banks led the decliners.

- **United Bank for Africa Plc – STRONG BUY** (FVE: ₦14.10). We expect meaningful improvement in UBA's profitability over 2018 on the back of deposit growth, increased loan book, expansion in its trading book, healthier asset quality, lower loan-loss provision, and resilience in fee income.
- **CCNN Plc. – BUY** (FVE: ₦32.68). BUA, the largest shareholder of CCNN, recently announced the commissioning of the 1.5MMT plant in Sokoto State, expected to be operated by CCNN. Based on available data, we believe the capex was funded by BUA Group, as such, we assessed the possible structure on how the plant would be integrated into CCNN. Working on our best-case scenario, we assumed a debt related structure (finance lease) and arrived at a FVE of ₦32.68.
- **Guinness Nigeria Plc – SELL** (FVE: ₦88.21). Guinness is poised for further earnings recovery into 2019 underpinned by lower operating and finance expenses. However, from a valuation standpoint, we believe the stock is expensive due to the dilutive impact of the recently concluded rights issue.
- **Flourmills of Nigeria Plc – STRONG BUY** (FVE: ₦39.40). Flourmills recently raised ₦39 billion via rights with proceeds earmarked to pay down some of its short-term debts amongst others. Following the payment of some of its debt, we expect tamer finance costs and, by extension, improvement in earnings in FY 19. To add, currently lower commodity prices (sugar and wheat) guides to expansion in gross margin and improvement in operating cash flow.
- **PZ Cussons Plc – SELL** (FVE: ₦16.57). Our sell rating on PZ is premised on expected slower recovery in volumes due to weak income levels. Additionally, the recent rise in Brent crude is expected to stoke pressures on petrochemical prices which would weigh on gross profit and earnings.
- **Seplat Petroleum Development Company Plc – STRONG BUY** (FVE: ₦975.27). The case for Seplat remains higher crude oil prices and volumes, unrecognized capital allowance, reserve accretion, higher receipt from crude oil lifted in OML 55 as well as the company's extended debt maturity profile which feeds into an improved cash position.
- **Okomu Oil Plc – NEUTRAL** (FVE: ₦102.33). Okomu is our most preferred pick in the Palm oil sector, as 2018 presents opportunities for stronger volumes growth, better operating efficiency, and lower finance cost which guides to improved earnings over FY 18.

Please read our [Ratings, Disclosure & Disclaimer](#) to understand how our analysts reach their recommendations.

Corporate Benefit Tracker

Last week

- The NSE announced a review of the equities market structure, making changes which includes addressing imbalances in auction sessions, expansion of participants in the auction period and changes to the market price volatility mechanism. Click [here](#) to read more.
- In addition, the NSE announced the likely incoming and outgoing companies on its various indices following the completion of the first stage of the Mid-Year review. Click [here](#) to read more.

This Week

- **AGM:** Newrest ASL Plc, BOC Gases Plc, NPF Microfinance Bank Plc, CCNN Plc.
- **Dividend Payment:** I1 Plc, Dangote Flour Mills Plc, Okomu Oil Plc, BOC Gases Plc, NPF Microfinance Bank Plc, CCNN Plc. Click [here](#) to view full corporate actions thus far in 2018

Stock Recommendation

| Sectors/Stocks | Rating | FVE (₦) | Price (₦) | Upside | YTD Return | P/E FY 17(x) | P/E FY 18E (x) | P/B FY 17E (x) | P/B FY 18E (x) | FY 18E dividend yield |
|-----------------------|-------------------|------------|--------------|--------|---------------|-----------------|-------------------|-------------------|-------------------|-----------------------------|
| BANKING | | | | | | | | | | |
| ACCESS | STRONG BUY | 13.46 | 10.4 | 29.5% | -0.5% | 4.9 | 4.8 | 0.9 | 0.7 | 4.2% |
| DIAMOND | SELL | 1.39 | 1.53 | -9.3% | 2.0% | NA | 6.3 | 0.2 | 0.2 | 0.0% |
| ETI | SELL | 16.54 | 20.2 | -18.1% | 18.8% | NA | 40.7 | 139.6 | 146.9 | 0.0% |
| FBNH | STRONG BUY | 14.40 | 10.65 | 35.2% | 21.0% | 3.9 | 5.8 | 0.3 | 0.5 | 3.2% |
| FCMB | BUY | 3.38 | 2.19 | 54.5% | 48.0% | 7.1 | 2.5 | 0.3 | 0.3 | 5.9% |
| FIDELITY | BUY | 3.08 | 2.28 | 35.0% | -7.3% | 4.7 | 3.2 | 0.4 | 0.4 | 9.4% |
| GTB | STRONG BUY | 49.02 | 40.7 | 20.4% | -0.1% | 7.2 | 6.7 | 2.0 | 1.7 | 7.0% |
| STANBIC | OVERWEIGHT | 55.00 | 48.75 | 12.8% | 17.5% | 10.2 | 10.3 | 2.7 | 2.4 | 6.2% |
| UBA | STRONG BUY | 14.10 | 10.6 | 38.6% | 2.9% | 4.8 | 4.4 | 0.7 | 0.5 | 11.3% |
| ZENITH | STRONG BUY | 35.25 | 25.5 | 38.2% | -0.5% | 4.9 | 4.4 | 1.1 | 1.0 | 12.5% |
| CEMENT | | | | | | | | | | |
| CCNN | BUY | 32.68 | 24.75 | 32.0% | 160.5% | 9.6 | 13.9 | 2.3 | 1.9 | 1.7% |
| DANGCEM | OVERWEIGHT | 253.39 | 225.0 | 12.6% | -2.2% | 21.0 | 15.5 | 5.5 | 5.2 | 5.5% |
| LAFARGE | SELL | 34.71 | 39.0 | -11.0% | -13.1% | NA | 59.8 | 1.3 | 1.2 | 2.9% |
| BREWERIES | | | | | | | | | | |
| GUINNESS | SELL | 88.21 | 97.5 | -9.5% | 3.7% | 86.1 | 24.7 | 3.9 | 2.5 | 1.7% |
| INTBREW | SELL | 24.40 | 44.0 | -44.5% | -19.3% | 54.6 | 96.3 | 10.4 | 9.9 | 0.3% |
| NB | NEUTRAL | 118.68 | 110.5 | 7.4% | -18.1% | 32.6 | 24.0 | 6.0 | 5.0 | 4.2% |
| AGRIC | | | | | | | | | | |
| OKOMU | NEUTRAL | 102.33 | 94.20 | 17.8% | 39.2% | 9.8 | 8.9 | 2.0 | 1.6 | 3.3% |
| PRESCO | SELL | 70.44 | 73.5 | -4.2% | 7.3% | NA | 9.1 | 1.4 | 2.2 | 2.2% |
| FOOD PRODUCERS | | | | | | | | | | |
| DANG SUGAR | NEUTRAL | 20.23 | 19.0 | 6.5% | -5.0% | 6.0 | 8.6 | 2.6 | 2.2 | 6.1% |
| FLOURMILL | STRONG BUY | 39.40 | 31.0 | 27.1% | 6.9% | 6.7 | 7.1 | 0.5 | 0.7 | 6.4% |
| NESTLE | SELL | 1008.97 | 1495 | -32.5% | -3.9% | 36.6 | 26.7 | 27.5 | 26.4 | 3.7% |
| UACN | NEUTRAL | 16.44 | 14.05 | 17.0% | -16.9% | 16.0 | 9.6 | 0.5 | 0.4 | 4.2% |
| PERSONAL CARE | | | | | | | | | | |
| PZ | SELL | 16.57 | 24.23 | -31.6% | 17.6% | 25.3 | 53.4 | 1.9 | 2.1 | 1.1% |
| UNILEVER | SELL | 36.21 | 50.75 | -28.6% | 23.8% | 23.0 | 24.7 | 2.3 | 3.5 | 1.2% |
| OIL & GAS | | | | | | | | | | |
| FORTE OIL | BUY | 59.00 | 34.05 | 73.3% | -21.7% | 3.0 | 10.7 | 0.9 | 0.8 | NA |
| MRS | NEUTRAL | 38.07 | 34.25 | 11.1% | 24.7% | 6.3 | 49.9 | 0.4 | 0.4 | NA |
| SEPLAT | STRONG BUY | 975.27 | 685.0 | 42.4% | 9.4% | 4.2 | 4.4 | 0.7 | 0.6 | NA |
| TOTAL | NEUTRAL | 206.67 | 193.3 | 6.9% | -15.9% | 8.2 | 14.9 | 2.5 | 2.6 | 5.0% |